

7. Liberalization, Privatisation and Globalisation

Economic environment is also called business environment and are used interchangeably. In order to solve the economic problem of our country, the government has taken several steps including control by the State of certain industries, central planning and reduced importance of the private sector.

Accordingly, the main objectives of India's development plans set were to :

- (a) Initiate rapid economic growth to raise the standard of living, reduce the widespread unemployment and poverty stalking the land;
- (b) Become self-reliant and set up a strong industrial base with emphasis on heavy and basic industries;
- (c) Achieve balanced regional development by establishing industries across the country;
- (d) Reduce inequalities of income and wealth;
- (e) Adopt a socialist pattern of development – based on equality and prevent exploitation of man by man.

With the above objectives in view, the Government of India as a part of economic reforms announced a new industrial policy in July 1991.

The broad features of this policy were as follows :

1. The Government reduced the number of industries under compulsory licensing to six only.
2. Disinvestment was carried out in case of many public sector industrial enterprises.
3. Policy towards foreign capital was liberalized. The share of foreign equity participation was increased and in many activities 100 per cent Foreign Direct Investment (FDI) was permitted.
4. Automatic permission was now granted for technology agreements with foreign companies.
5. Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India.

There were three major initiatives taken by the Government of India to introduce the much debated and discussed economic reforms to transform Indian economy from closed to open market economy. These are generally abbreviated as LPG, i.e. Liberalization, Privatization and Globalization.

7.1 Liberalization

Liberalization of the Indian economy contained the following features :

- (a) The economic reforms that were introduced were aimed at liberalizing the Indian business and industry from all unnecessary controls and restrictions.
- (b) They indicate the end of the license-permit-quota raj.

- (c) **Liberalization of the Indian industry has taken place with respect to :**
- (i) Abolishing licensing requirement in most of the industries except a short list,
 - (ii) Freedom in deciding the scale of business activities i.e., no restrictions on expansion or contraction of business activities,
 - (iii) Removal of restrictions on the movement of goods and services,
 - (iv) Freedom in fixing the prices of goods and services,
 - (v) Reduction in tax rates and lifting of unnecessary controls over the economy,
 - (vi) Simplifying procedures for imports and exports, and
 - (vii) Making it easier to attract foreign capital and technology to India.

7.2 Privatisation

Privatization was characterized by the following features :

- (a) The new set of economic reforms aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector.
- (b) To achieve this, the government redefined the role of the public sector in the New Industrial Policy of 1991.
- (c) The purpose of the same, according to the government, was mainly to improve financial discipline and facilitate modernization.
- (d) It was also observed that private capital and managerial capabilities could be effectively utilized to improve the performance of the PSUs.
- (e) The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions.

7.3 Globalisation

Globalisation of the Indian economy contained the following characteristics :

- (a) Globalization is the outcome of the policies of liberalisation and privatization already initiated by the Government.
- (b) Globalisation is generally understood to mean integration of the economy of the country with the world economy. It is a complex phenomenon to understand and apply into practice.
- (c) It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration.
- (d) It involves creation of networks and activities transcending economic, social and geographical boundaries.
- (e) Globalisation involves an increased level of interaction and interdependence among the various nations of the global economy.
- (f) Physical geographical gap or political boundaries no longer remain barriers for a business enterprise to serve a customer in a distant geographical market across the globe.



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KNOW ?**

Reasons for Implementing LPG

- *Large and growing fiscal imbalances. (Gross fiscal deficit rose to 12.1% of GDP in 1991.*
- *Growing efficiency in the use of resources.*
- *Low foreign exchange reserves (\$1.2 billion in January 1991)*
- *High inflation rate (13.87% in year 1990-91)*
- *The low annual growth rate of Indian economy stagnated around 3.5% from 1950s to 1980s, while per capita income averaged 1.3%.*
- *The government appointed a committee under the chairmanship of C. Rang Rajan to study and recommend new measures to make privatization more effective.*



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